Evaluate Vantage

September 06, 2019

Sumitomo bets on Roivant to solve its patent expiry woes

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The Japanese company is to hand across $3bn to Roivant for various subsidiaries that hold an eclectic portfolio of assets.

The lesson from Sumitomo Dainippon's extraordinary decision today to give Roivant Sciences $3bn is that if you throw enough money at something it might just turn into even more money.

That appears to have been the vision of Roivant's founder, Vivek Ramaswamy, whose strategy of licensing in cast-off projects and bundling them into a complex network of subsidiaries has thus received a major endorsement. Of course, it helps if you can find a buyer that, like Sumitomo, faces a blockbuster patent expiry and whose deal-making keeps firing blanks.

The Japanese group's latest disappointment came in July when napabucasin, an asset licensed from Boston Biomedical, failed a pivotal trial in pancreatic cancer. Meanwhile, Sumitomo's schizophrenia blockbuster, Latuda, looks set to generate $1.7bn of sales for Sumitomo this year, but revenues will fall off a cliff when its key US patent expires in 2023.

Four known "vants"

Today's deal, whose $3bn cash consideration is still subject to additional due diligence, will see Roivant sell its holdings in four entities – Urovant, Myovant, Enzyvant and Altavant – to Sumitomo.

A fifth "vant" is also to be transferred, but which one this is will only be specified once the deal is formalised. The deal also comprises the acquisition of a 10% Roivant stake and analytics technology, as well as options over another six "vants", whose exercise will presumably entail the payment of additional fees.

But will Sumitomo actually own the pipeline projects held by these entities, and will public investors benefit? Enzyvant and Altavant are private and wholly owned by Roivant, so these considerations do not apply, and 100% ownership will transfer to Sumitomo.

However, Urovant and Myovant are respectively 75% and 46% held by Mr Ramaswamy's vehicle, so Sumitomo looks to gain control over only the former's assets. And, while the transaction represents a nice return for Mr Ramaswamy and Roivant, the remainder of Urovant and Myovant's shares will remain publicly traded.

Therefore shareholders will see no benefit beyond the fact that the Japanese group is endorsing their companies. This explains why both rose a fairly anaemic 6% this morning.

Things we know: what Sumitomo is buying for $3bn					
Project	**Company**	**Source**	**Use**	**NPV ($m)**	**Ownership**
RVT-802	Enzyvant	Duke Uni	Paediatric congenital athymia (filed)	NA	100%
Relumina	Myovant	Takeda	Uterine fibroids (ph3) Endometriosis (ph3) Prostate cancer (ph3)	1,543	46%
Vibegron	Urovant	Merck & Co	Overactive bladder (ph3) IBS-associated pain (ph2)	623	75%
Rodatristat	Altavant	Karos	PAH (ph2) IPF (ph2) Sarcoidosis (ph2)	0	100%
MVT-602	Myovant	Takeda	Female infertility (ph2)	16	46%
URO-902	Urovant	Ion Channel Innovations	Overactive bladder (ph2)	0	75%
RVT-801	Enzyvant	Duke Uni	Acid ceramidase deficiency (ph1)	0	100%
Note: excludes a fifth, undisclosed "vant" and undisclosed options over six other entities. Source: company presentations & EvaluatePharma.					

Sumitomo investors will now look to catalysts. Relumina, Myovant's lead asset, licensed from Takeda, is to be filed in the US by the end of 2019 for uterine fibroids. This is its most important use, according to *EvaluatePharma's* sales by indication module, accounting for all of the 2024 sellside consensus revenue of $1.1bn.

Also to be filed this year is Vibegron, Urovant's lead, originated by Merck & Co, for overactive bladder. This use is expected to bring in $343m of the 2024 forecast sales of $404m, *EvaluatePharma* reckons.

Sellside consensus-derived NPVs suggest that the Sumitomo deal is overpriced. Meanwhile, based on Urovant and Myovant's market caps, the stakes bought by Sumitomo are worth $215m and $330m respectively.

The Japanese group's mid-term plan is to become a leader in CNS, oncology and cell therapies, and it will not go unnoticed that, apart from Relumina in prostate cancer, none of the Roivant assets fits the bill.

Proactively trying to fill the Latuda hole is the right approach for Sumitomo, but whether Roivant is the answer is questionable.